



CHEMONICS INTERNATIONAL INC.



NICARAGUA: SHORT-TERM ECONOMIC REFORMS
TO BE RECOMMENDED TO THE GOVERNMENT OF NICARAGUA

INITIAL LIST OF POLICY MEASURES

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE
AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA UNDER THE
GENERAL BUSINESS TRADE AND INVESTMENT
INDEFINITE QUANTITY CONTRACT (GBTI IQC) No. PCE-I-00-98-00015-00

Submitted to:
USAID/Nicaragua

Submitted by:
Chemonics International Inc.

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Recommended Short-term Actions for the Government of Nicaragua, December 3, 2003

I. Changes Already Made by the Government of Nicaragua in 2003

First, it should be noted that some measures suggested a year ago under the heading *Short-Term Actions to Improve the Investment and Business Climate in Nicaragua – Priority 1* have already been put into effect by the Government of Nicaragua (GON). These changes are outlined as follows:

Issue #1: Initiate the process of administrative simplification and deregulation – one specific recommendation was to set up a One-stop Investment Action Center within MIFIC.

Response: Through an inter-agency agreement among MIFIC, the Supreme Court, the DGI and the Managua Mayor's Office, the GON established the *One-Stop Window for Investment* several months ago. This one-stop window should result in significant improvement in the administrative and regulatory process to invest in Nicaragua. However, there is still a need to strengthen this new mechanism.

Issue #2: The need to provide an RUC number (taxpayer number) to foreign investors operating in Nicaragua.

Response: Foreign investors can now obtain their RUC numbers at the new One-Stop Window for Investment.

Issue #3: The GON should ratify the New York Convention on Arbitrage and it should submit to the National Assembly for approval the Arbitrage System Law.

Response: The National Assembly ratified the New York Convention on Arbitrage.

Issue #4: Change the governing regulations for the FTZ Law to allow for FTZ providers could operate within the FTZ regime.

Response: This measure was implemented last June.

II. Pending Important Requests

The National Development Plan identifies many areas for improvement both at the micro and macro level, most of which require legislation action and/or a reform process initiated from the Executive. Nonetheless, there are several “easy” changes that the GON could put into effect with relatively minor effort that could result in a significant improvement in the country's overall business and investment climate.

Some of these changes are as follows:

1. *Issuance of an executive order that reduces GON interference in the private sector, focusing on administrative simplification of the enterprise registration process.* Modeling on the experience of the One-Stop Window for Investment, the GON should establish a One-stop Window for Company Registration and Business Regulations. In the medium-term, a new *Commercial Code* should be adopted for the country, however, in the mean time, the GON should start by simplifying the vast number of measures associated with the legalization of enterprises in Nicaragua through the proposed one-stop window.
2. *Establishment of a short-term Custom Deregulation Task Force,* proposed a year ago by the U.S. government, should have conducted a rapid benchmark assessment of existing custom barriers and cumbersome procedures in order to recommend elimination of unnecessary, inefficient, and obsolete procedures. This suggestion was not implemented and the problem, far from improving, has worsened. There is a need to form a task force as a first step to deregulate custom procedures. A second step would be to implement task force recommendations.
3. *Creation of a business visa category.* This is an old recommendation that has not been implemented yet. The current legislation prohibits a tourist from entering into any type of contract while in Nicaragua, yet the only available visa to travel to Nicaragua is a tourist visa. Some lawyers have suggested that one way to approach this problem is by eliminating this clause from the tourist visa definition, allowing tourists to enter into contractual arrangements while in Nicaragua. Still, creating the business visa category is a way to separate tourists from potential investors. This suggestion should be made to the Ministerio de Gobernación.
4. *Simplification of the process for investors to obtain residency and ship household effects.* The current procedures to obtain residency for investors and allow them to bring their household effects to Nicaragua are cumbersome and involve unnecessary circular requirements. First the investor needs a certification from MIFIC, which in turn requires the investor to open bank accounts, arrange office rentals, and so forth. However, to open the account, the investor needs MIFIC certification. Additionally, even though the investor needs to renew her (his) residency annually, she (he) needs to obtain an exit visa to travel out of Nicaragua.